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UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

January 22, 1983

File

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MEMORANDUM

TO:	DOE:	Mr. Bradley	S/S 8302002
	Commerce:	Mr. Olmer	S/S 8302003
	Commerce:	Mr. Morris	S/S 8302004
	Defense:	Mr. Ikle	S/S 8302005
	NSC:	Mr. Bailey	S/S 8302006
	CIA:✓	Mr. Rowen	S/S 8302007
	OMB:	Mr. Khedouri	S/S 8302008
	OPD:	Mr. Boggs	S/S 8302009
	Treasury:	Mr. Leland	S/S 8302010
	Interior:	Mr. West	S/S 8302011
	Transportation:	Ms. Connor	S/S 8302012
	S/SN:	Mr. Fairbanks	S/S 8302013
	EB:	Mr. McCormack	S/S 8302014
	EUR:	Mr. Burt	S/S 8302015
	EA:	Mr. Wolfowitz	S/S 8302016
	S/P:	Mr Bosworth	S/S 8302017

FROM: E - Allen Wallis W

SUBJECT: Summary of Discussion International Energy Security Group Meeting. January 10, 1983

Attached is a summary of discussion of our last meeting, January 10, 1983.

Attachment:

Summary of Discussion International Energy Security Group Meeting January 10, 1983

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SUMMARY OF DISCUSSION

INTERNATIONAL ENERGY SECURITY GROUP (IESG)

10:30 AM, January 10, 1983

Under Secretary Wallis opened the meeting by noting that the main agenda item, the export of Alaskan oil, would be followed by progress report by Allan Wendt on the energy requirements study.

Alaskan oil

Under Secretary Wallis stated that the revised report of the Working Group on Alaskan oil export was an improvement over the first draft. However, he questioned the advisability of forwarding the report to the SIG-IEP at this stage. There were still some clarifications needed and questions to be answered:

Exactly how much oil would be available for export to Japan is not clear but in any case the volumes would be relatively small and not of great economic significance to Japan.

It is not clear how eager the Japanese are to receive the oil. At one point the report suggests that oil be offered as a gift to Nakasone; at another point it suggests the Japanese should be willing to make significant new reciprocal concessions to obtain it.

There are factors other than national security to be taken into account. We are asking the Administration to back into a political buzz saw on this issue. The report conjectures that Congressional opposition is not as strong now as it was previously, but we need a better appraisal. At present it appears that movement on this issue would entail tremendous political cost. Judged against these costs, the political benefits are less significant, even though no one would debate the merits of decontrolling oil exports on economic efficiency grounds. The Group owes it to principals to explain these considerations.

Ms. Connor (DOT) commented that the paper still did not adequately reflect DOT concerns. There were some data problems. Transportation was not opposed to the general idea of oil exports if an adequate proposal were made. A key difficulty would be the question of cargo preference. DOT opposes cargo preference, but recognizes that this probably would be required in Congress to lift the ban. However, to do so would have a ripple effect on other maritime activities. The U.S. does not support cargo preference in the UNCTAD Liner Code of Conduct. DOT was developing a counter-proposal involving the approval of incremental exports above 1.7 mbd.

Mr. Leland (Treasury) said that in his view the task now was to try to gauge the extent of Japanese interest. The group should provide a report, either a paper or an oral briefing on the issue to the SIG-IEP on Wednesday January 12.

Mr. Martin (NSC) recalled that, at the December 7 NSC meeting, the President had expressed an interest in examining this issue further. The Congressional question could not be addressed before we knew the Japanese position. The report under discussion focussed mainly on foreign policy concerns. A previous economic analysis, prepared by Mr. Boggs, could be updated and included in the material eventually forwarded to the SIG-IEP.

Mr. Bradley (DOE) endorsed this suggestion, commenting that DOE's concern was that the current report did not reflect arguments based on the economics of energy, including the impact of recent California oil finds and the Beaufort Sea lease auction.

[redacted] (CIA) added that the discussion of Japanese attitudes needed strengthening. The current weakness in the oil market suggested that the Japanese would not be willing to give up much to obtain Alaskan oil. 25X1

Mr. Pugliaresi (State-S/P) observed that although the efficiency gains that would have been realized by decontrol were larger 2 or 3 years ago (there have been sizable investments in Panama and in tankers in the interim), there was potential again for large efficiency savings if the ban were removed in the next few years. Revenue gains would accrue to the government in the out years.

Mr. Morris (Commerce) said he found "tremendous interest" in Alaskan oil from Japanese government and industry leaders when he met with them in December.

Mr. Khedouri (OMB) pointed out that Alaskan oil decontrol inevitably raised ancillary questions: the impact on maritime interests, domestic energy policy and the offshore leasing program. The current working group paper focussed only on the merits of the proposal and not on the implications of pursuing it. It had to be put in a legislative context, and additional information included on energy, transportation, and resource development questions. The information necessary to make a decision on this issue was absent.

Mr. Tarbell (DOD) said that DOD reserved its position but commented that the paper should not link oil exports to Japanese security concessions. The discussion on defense tanker requirements was also inadequate; more analysis was required.

Mr. West (Interior), referring to the export of new (as opposed to existing) oil production, said that the proposal would gain greater support if there was an investment linkage, as suggested in the report. The oil and gas service industry backed increased investment.

Mr. Leland said he expected that the Japanese would be interested in Alaskan oil as long as it was cheaper for them than any alternative. An additional advantage would be the resulting reduction in the bilateral balance of trade deficit.

Under Secretary Wallis asked whether reliable estimates were available on the budgetary impact of the Alaskan oil export options. Mr. Khedouri replied that estimates were not current. Mr. Boggs (OPD) said he would guess a billion or two at best. Ms. Connor noted that the impact of the tanker loan guarantee would be pertinent.

Under Secretary Wallis summed up the consensus of the meeting as follows: The report would be revised to include analysis of economic gains from decontrol and the budgetary impact; discussion of the political complications and ramifications; and tightening of the discussion of Japanese attitudes. The latter should include numbers, e.g., per barrel savings in shipping the oil to Japan (rather than to the Gulf Coast). An oral report would be made to the SIG-IEP on Wednesday, January 12, noting that the IESG considered, but did not endorse, the report of the working group on Alaskan oil export, and suggested that further work be done.

Mr. Martin (NSC) said that this guidance was helpful, and offered to begin work on redrafting the report immediately, with particular attention to incorporating comments from DOT, DOE and DOD.

Update on Energy Requirements Study

Mr. Wendt (State-EB/IEP) briefed the group on developments on the study of energy requirements called for in the "Summary of Conclusions". Work on the energy study was progressing satisfactorily. Terms of reference drafted by the U.S. were presented to energy officials of other Summit nations and the EC at an informal meeting in December; reaction to it has been favorable. (Copies of the terms of reference and a short paper summarizing the status and outlook for the study were distributed). Agreement among Summit nations on the terms of reference was expected at a second "informal" meeting in Paris on January 12. The IEA Secretariat has begun work on a first draft of the energy requirements study itself which should be available in early February.

Significant problems could lie ahead, however. We anticipate procedural difficulties in finding institutional means to involve the French, who are not in the IEA, and smaller non-Summit countries. These should be surmountable. More serious are the substantive problems we may encounter in trying to reach policy conclusions. At the request of IEA Executive Secretary Ulf Lantzke, Chuck Patrizia, Executive Assistant to Ambassador Fairbanks, would be seconded to the IEA in Paris to assist in the study. CIA "shadow" studies on the same issues are also underway.

Mr. Khedouri asked that the US keep in mind the strong sentiments expressed at the last IESG meeting against U.S. government involvement in financing Western energy alternatives.

Under Secretary Wallis asked that members of the IESG forward any additional thoughts on the study to him through Mr. Wendt before the SIG-IEP meeting on January 12.